

ADVANT E CORP  
Form 10QSB  
November 20, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D. C. 20549

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**FORM 10-QSB**

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(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 0-30983

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**ADVANT-E CORPORATION**

(Exact name of small business issuer as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction  
of incorporation or organization)

2680 Indian Ripple Rd.

Dayton, Ohio 45440

(Address of principal executive offices)

(937) 429-4288

**88-0339012**  
(IRS Employer

Identification No.)

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(Issuer's telephone number)

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 20, 2007 the issuer had 6,815,015 outstanding shares of Common Stock, \$.001 Par Value.

Transitional Small Business Disclosure Format: Yes  No

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## ADVANT-E CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	\$ 2,178,155	1,368,582	5,075,628	3,964,509
Cost of revenue	818,716	422,394	1,810,060	1,199,923
Gross margin	1,359,439	946,188	3,265,568	2,764,586
Marketing, general and administrative expenses	876,090	589,891	2,231,039	1,799,812
Operating income	483,349	356,297	1,034,529	964,774
Other income, net	18,002	14,142	73,257	46,531
Income before taxes	501,351	370,439	1,107,786	1,011,305
Income tax expense	165,467	138,064	399,184	380,369
Net income	\$ 335,884	232,375	708,602	630,936
Basic earnings per share	\$ 0.05	0.04	0.11	0.10
Diluted earnings per share	\$ 0.05	0.04	0.11	0.10
Weighted average shares outstanding	6,845,015	6,403,174	6,612,266	6,403,174
Weighted average shares outstanding, assuming dilution	6,845,015	6,432,246	6,612,266	6,429,770

The accompanying notes are an integral part of the consolidated condensed financial statements.

**ADVANT-E CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,876,255	2,209,782
Short-term investments	295,663	274,434
Accounts receivable, net	894,188	477,639
Prepaid software maintenance costs	198,742	
Prepaid expenses and deposits	70,590	28,339
Deferred income taxes	50,226	
<b>Total current assets</b>	<b>3,385,664</b>	<b>2,990,194</b>
Software development costs, net	214,684	247,621
Property and equipment, net	438,257	386,697
Goodwill	1,376,452	
Other intangible assets, net	519,822	
<b>Total assets</b>	<b>\$ 5,934,879</b>	<b>3,624,512</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Borrowings under bank line of credit	\$ 140,000	
Accounts payable	323,317	66,936
Accrued salaries and other expenses	268,001	157,802
Income taxes payable	116,049	109,642
Deferred revenue	621,682	112,846
Deferred income taxes		53,119
<b>Total current liabilities</b>	<b>1,469,049</b>	<b>500,345</b>
Deferred income taxes	305,154	165,784
<b>Total liabilities</b>	<b>1,774,203</b>	<b>666,129</b>
Shareholders' equity:		
Common stock, \$.001 par value; 20,000,000 shares authorized, 6,875,015 and 6,478,714 issued, and 6,815,015 and 6,478,714 outstanding at September 30, 2007 and December 31, 2006, respectively	6,875	6,478
Paid-in capital	2,210,200	1,641,906
Retained earnings	2,018,601	1,309,999
Treasury stock at cost, 60,000 shares at September 30, 2007	(75,000)	
<b>Total shareholders' equity</b>	<b>4,160,676</b>	<b>2,958,383</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,934,879</b>	<b>3,624,512</b>

The accompanying notes are an integral part of the consolidated condensed financial statements.

## ADVANT-E CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 708,602	630,936
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	162,233	105,624
Amortization of software development costs	48,300	93,793
Amortization of intangible assets	21,178	
Loss on disposal of assets		41,921
Deferred income taxes	(41,784)	116,963
Purchases of trading securities	(154,868)	
Proceeds from sales of trading securities	159,184	
Net unrealized gain on trading securities	(12,573)	
Net realized gain on sale of securities	(12,972)	(8,768)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	(101,139)	(95,099)
Prepaid software maintenance costs	(26,430)	
Prepaid expenses and deposits	(3,841)	(21,015)
Accounts payable	70,493	11,538
Accrued salaries and other expenses	68,320	11,315
Income taxes payable	6,407	(349,347)
Deferred revenue	38,310	5,077
<b>Net cash flows from operating activities</b>	<b>929,420</b>	<b>542,938</b>
Cash flows from investing activities:		
Purchases of available-for-sale securities		(107,966)
Proceeds from sale of available-for-sale securities		90,085
Purchases of property and equipment	(181,246)	(238,480)
Software development costs	(15,363)	(199,056)
Cash paid for purchase of Merkur Group, Inc.	(971,338)	
<b>Net cash flows from investing activities</b>	<b>(1,167,947)</b>	<b>(455,417)</b>
Cash flows from financing activities:		
Net payments on bank line of credit	(20,000)	
Purchase of treasury stock	(75,000)	
<b>Net cash flows from financing activities</b>	<b>(95,000)</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(333,527)</b>	<b>87,521</b>
Cash and cash equivalents, beginning of period	2,209,782	1,763,435
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,876,255</b>	<b>1,850,956</b>
Supplemental disclosures of cash flow items:		
Income taxes paid	\$ 434,561	641,000
Noncash transactions:		
Common stock issued in connection with purchase of Merkur Group, Inc.	568,692	

The accompanying notes are an integral part of the consolidated condensed financial statements.



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**ADVANT-E CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**

**September 30, 2007**

**Note 1: Basis of Presentation, Organization and Other Matters**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and notes to financial statements required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited consolidated condensed financial statements include all adjustments considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods.

Results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in Advant-e Corporation's 2006 Form 10-KSB filed with the Securities and Exchange Commission.

*Nature of Operations*

Advant-e Corporation through its wholly-owned subsidiaries, Edict Systems, Inc. and Merkur Group, Inc. (collectively, the Company), develops, markets, resells, and hosts software and provides services that allow its customers to send and receive business documents electronically in standard and proprietary formats. Edict Systems specializes in providing hosted Electronic Data Interchange solutions that utilize the Internet as the primary communications method. Edict customers use its solutions to connect with business partners, integrate data with internal systems, expand and manage electronic trading communities, and validate data via a hosted business rule service. Merkur Group develops, private labels, and resells software and provides professional services, technical maintenance, and support to provide solutions that integrate with large Supply Chain Management (SCM), Customer Relationship Management (CRM), and financial and Enterprise Resource Planning (ERP) systems for automating inbound and outbound business documents.

*Principles of Consolidation*

The consolidated condensed financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiary, Edict Systems, Inc. throughout the periods covered by this Form 10-QSB and its wholly-owned subsidiary Merkur Group, Inc. since the date of its acquisition by Advant-e Corporation on July 2, 2007. Inter-company accounts and transactions are eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those considered in the assessment of recoverability of capitalized software development costs, and those used in recording prepaid software maintenance costs, deferred revenue and net deferred tax liabilities. It is at least reasonably possible that the significant estimates used will change within the next year.

*Cash and Cash Equivalents*

The Company classifies as cash equivalents all highly liquid investments with original maturities of three months or less.

*Short-term Investments*

Short-term investments are reported at fair value using available quoted market prices and consist of marketable equity and U. S. Treasury debt securities. These investments are classified as trading securities. Through September 30, 2006 these investments were classified as available-for-sale securities and unrealized gains and losses, net of deferred taxes, were recorded in shareholders' equity as other comprehensive income. In the fourth quarter of 2006 management determined that it was appropriate to reclassify the short-term investments from available-for-sale securities to trading securities due to the active and frequent buying and selling of the securities. In connection with this reclassification, all unrealized gains and losses, net of deferred taxes, at October 1, 2006 and for subsequent periods are included in earnings.

The Company uses the specific identification method to determine the cost of securities sold.



### ***Revenue Recognition***

The Company recognizes revenues in accordance with the Securities Exchange Commission Staff Accounting Bulletin 101 (SAB 101), which requires the Company to recognize revenue when, in addition to other criteria, delivery has occurred or services have been rendered.

Revenues from Internet-based products and services (Web EDI and EnterpriseEC, etc) are comprised of four components account activation and trading partner set-up fees, monthly subscription fees, usage based transactional fees and customer payments for the Company's development of applications designed to meet specific customer specifications.

Revenues earned from account activation and trading partner set-up fees are recognized after the Company performs consultative work required in order to establish an electronic trading partnership between the customer and their desired trading partners. Trading partnerships, once established, require no ongoing effort on the part of the Company and customers are able to utilize the electronic trading partnerships either directly with their customers or via a service provider other than the Company.

Revenue from monthly subscription fees is recognized over the period to which the subscription applies.

Revenue from usage based transaction fees is recognized in the period in which the transactions are processed.

Revenue from the sale of software and related products is recognized upon activation of the software and delivery to the customer when title and risk of loss are transferred. The Company follows the guidance provided in Emerging Issues Task Force Abstract ( EITF ) No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. Based upon this guidance the Company records the revenue from the sale of software and related products at gross, and the related software purchases are included in cost of sales. Customers have a 30-day period in which they can choose to accept or return the software. Historically, customer returns have not been significant.

Revenue from maintenance contracts is recognized over the life of the maintenance and support contract period, generally twelve months. Revenue from professional services is recognized upon the performance of those services.

Revenue from customer payments for the Company's development of applications designed to meet specific customer specifications is recognized over the contract period, generally twelve months.

### ***Software Maintenance Costs***

Prepaid software maintenance costs represent amounts paid to the primary software supplier of Merkur Group, Inc. for providing program upgrades and software modifications to remediate programming errors during the lives of the related customer maintenance and support contracts. These costs are charged to expense over the lives of the maintenance and support contract periods, generally twelve months.

### ***Accounts Receivable and Credit Policies***

Accounts receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment upon receipt of invoice or within thirty days.

Accounts receivable include amounts billed to customers and amounts that are unbilled at the end of the period for services that were performed before the end of the period. Customer account balances with invoices dated over 30 days old are considered delinquent.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management considers account balances that are over 90 days old as having a high probability of uncollectibility and generally includes those amounts in the valuation allowance. In addition, management individually reviews accounts receivable balances and, based on an assessment of current creditworthiness, estimates the account balances that will not be collected and includes those amounts, if any, in the valuation allowance.

The allowance for uncollectible accounts was \$17,000 at September 30, 2007 and \$23,000 at December 31, 2006.

### ***Software Development Costs***

The Company accounts for the costs of computer software that it develops for internal use and costs associated with operation of its web sites in accordance with the American Institute of Certified Public Accountants Statement of Position ( SOP ) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Emerging Issues Task Force ( EITF ) No. 00-2 Accounting for Web Site Development Costs . Such capitalized costs represent solely the salaries and benefits of employees working on the graphics and content development stages, or adding functionality or features. In accordance with SOP 98-1 and EITF No. 00-2, overhead, general and administrative and training costs are not capitalized. The Company accounts for the costs of computer software that it sells, leases and markets as a separate product in accordance with Financial Accounting Standards Board Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed . Capitalized costs are amortized by the straight-line method over the remaining estimated economic lives of the software application, generally three years, and are reported at the lower of unamortized cost or net realizable value.

### ***Property and Equipment***

Property and equipment consist of computers and office equipment, computer software, and leasehold improvements carried at cost. Depreciation is provided using straight line and accelerated methods over the estimated useful lives of the assets of three to seven years. Costs of normal maintenance and repairs are charged to expense as incurred.

### ***Goodwill and Other Intangible Assets, net***

Goodwill represents the excess of the Company s purchase price over the fair value of the net identifiable assets of a business acquired. Goodwill is tested for impairment annually. Other intangible assets consist of contractual vendor relationships, customer relationships and proprietary computer software. Intangible assets acquired in business acquisitions are recorded at their fair values using the income approach or cost approach. The other intangible assets are amortized on a straight-line basis over their expected useful lives of five to seven years.

### ***Income Taxes***

Deferred income taxes are determined using the liability method of accounting. Under this method, the net deferred tax asset or liability is determined based on the enacted laws and rates applied to the temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities result principally from temporary differences in the financial statement and tax bases of accounts receivable, prepaid software maintenance costs, other intangible assets, deferred revenue and accrued salaries and other expenses.

### ***Earnings Per Share***

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted earnings per share includes the dilutive effect of any outstanding warrants.

### ***Advertising***

All advertising costs are expensed as incurred. Advertising was \$12,127 and \$9,086 in the quarter ended September 30, 2007 and 2006, respectively, and \$30,079 and \$16,357 in the nine months ended September 30, 2007 and 2006, respectively.

### ***Comprehensive income***

Comprehensive income consists of net income and other gains and losses affecting shareholders equity that under U.S. generally accepted accounting principles are excluded from net income. Other comprehensive income and accumulated other comprehensive income consist solely of net unrealized gains on short-term investments that were classified as available-for-sale securities through September 30, 2006.

### **Note 2: Acquisition**

On July 2, 2007, Advant-e Corporation acquired 100% of the outstanding shares of Merkur Group, Inc., a Delaware corporation owned principally by the brother of the Company s CEO. The results of Merkur Group, Inc. s operations have been included in the consolidated financial statements since that date. Merkur Group, Inc. develops, private labels, and resells software and provides professional services, technical maintenance, and support to provide solutions that integrate with large Supply Chain Management (SCM), Customer Relationship Management (CRM), and financial and Enterprise Resource Planning (ERP) systems for automating inbound and outbound business documents.



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The aggregate purchase price of \$1,540,030 was comprised of cash payments of \$927,938 and issuance of 396,301 unregistered common shares valued at \$568,692 to the former shareholders of Merkur Group, Inc. and \$43,400 in related acquisition costs. The value of the unregistered common shares issued was determined based on a weighted-average market price of Advant-e Corporation's common shares over the 5-trading day period from June 28, 2007 through July 5, 2007.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Current assets and deposit	\$ 645,918
Property and equipment	32,547
Goodwill	1,376,452
Other intangible assets	541,000
<b>Total assets acquired</b>	<b>2,595,917</b>
Liabilities, principally current, assumed	861,127
Deferred income taxes	194,760
<b>Total liabilities assumed</b>	<b>1,055,887</b>
<b>Net assets acquired</b>	<b>\$ 1,540,030</b>

Of the \$541,000 of acquired other intangible assets, \$226,000 was assigned to proprietary internally developed and commercially available for sale computer software, with a useful life of seven years; \$130,000 was assigned to the Company's contractual relationship resulting from its Certified Partner Agreement with a software supplier, with a useful life of five years; and \$185,000 was assigned to customer relationships resulting in a recurring revenue stream, with a useful life of seven years. The amortization of the proprietary computer software and the contractual relationship are charged to cost of revenue and the amortization of the customer relationships is charged to marketing, general and administrative expenses.

The following pro-forma information shows results of operations as if the acquisition had occurred at the beginning of those periods:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue	\$ 2,178,155	1,883,764	5,961,348	5,573,181
Income before taxes	501,351	360,863	1,138,892	1,072,885
Net income	335,884	215,654	776,826	716,467
Basic earnings per share	0.05	0.03	0.11	0.11
Diluted earnings per share	0.05	0.03	0.11	0.10

### **Note 3: Software Development Costs**

Software development costs at September 30, 2007 and the changes during the nine months then ended are summarized as follows:

	<b>Accumulated</b>		
	<b>Cost</b>	<b>Amortization</b>	<b>Net</b>
Balance, January 1, 2007	\$ 1,497,372	1,249,751	247,621
Additions	15,363		15,363
Amortization		48,300	(48,300)
<b>Balance, September 30, 2007</b>	<b>\$ 1,512,735</b>	<b>1,298,051</b>	<b>214,684</b>

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The unamortized costs relate exclusively to internal use software and costs associated with web site development and related enhancements. The additions in the first nine months of 2007 relate to costs capitalized in connection with the development of a new hosted value-added application.

The ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic lives and changes in software and hardware technologies. Impairment of asset value is considered whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Note 4: Bank Line of Credit**

The Company has a bank line of credit to borrow up to \$350,000 at the bank's prime commercial interest rate plus 1.00% (8.75% at September 30, 2007). The line of credit is automatically renewable at the bank's option. Any borrowings under this line of credit are unsecured and are payable upon demand. Borrowings outstanding at September 30, 2007 were \$140,000. The Company has a second bank line of credit to borrow up to \$400,000 with no outstanding borrowings at any time during 2006 or 2007.

**Note 5: Income taxes**

Income tax expense consists of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Current expense	\$ 188,983	84,779	440,968	263,406
Deferred expense (benefit)	(23,516)	53,285	(41,784)	116,963
<b>Total income tax expense</b>	<b>\$ 165,467</b>	<b>138,064</b>	<b>399,184</b>	<b>380,369</b>

**Note 6: Earnings per share**

The reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three months and the nine months ended September 30, 2007 and 2006 follows:

	Income	Average Shares	Per Share
	(Numerator)	(Denominator)	Amount
<u>Three months ended September 30, 2007</u>			
Earnings per share:			
Net income available to shareholders	\$ 335,884	6,845,015	\$ 0.05

Three months ended September 30, 2006

Basic and diluted earnings per share:			
Net income available to shareholders - basic	\$ 232,375	6,403,174	\$ 0.04
Effect of potentially dilutive securities:			
Outstanding warrants		29,072	
<b>Net income available to shareholders - diluted</b>	<b>\$ 232,375</b>	<b>6,432,246</b>	<b>\$ 0.04</b>

	Income	Average Shares	Per Share
	(Numerator)	(Denominator)	Amount
<u>Nine months ended September 30, 2007</u>			
Earnings per share:			
Net income available to shareholders	\$ 708,602	6,612,266	\$ 0.11

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Nine months ended September 30, 2006

Basic and diluted earnings per share:			
Net income available to shareholders basic	\$ 630,936	6,403,174	\$ 0.10
Effect of potentially dilutive securities:			
Outstanding warrants		26,596	
Net income available to shareholders diluted	\$ 630,936	6,429,770	\$ 0.10

At September 30, 2006 warrants for the purchase of 75,000 shares of the Company's common stock at \$1.205 per share were outstanding; those warrants were exercised in December 2006 in exchange for a cash payment of \$90,375.

**Note 7: Comprehensive income**

The components of comprehensive income, net of tax, were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Net income	\$ 335,884	232,375	708,602	630,936
Net unrealized gain (loss) on available-for-sale securities (net of taxes of \$462 and \$7,861)		(535)		12,943
Reclassification adjustment for net realized (gain) loss on sale of available-for-sale securities included in net income (net of taxes (benefit) of \$407 and \$(3,244))		692		(5,524)
Comprehensive income	\$ 335,884	232,532	708,602	638,355

In the fourth quarter of 2006 management determined that it was appropriate to reclassify the short-term investments from available-for-sale securities to trading securities due to the active and frequent buying and selling of the securities. As a result, unrealized gains and losses are recognized in net income for periods beginning after September 30, 2006.

**Note 8: Financial Instruments and Concentrations of Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of deposits in a large Ohio-based regional bank, which exceeded federally insured limits at various times during 2007 and 2006. The Company manages the risk regarding deposits in banks by using high quality financial institutions.

The carrying amounts and estimated fair value of the Company's financial statements at September 30, 2007 and December 31, 2006 approximates fair value.

The Company purchases its software product sold by Merkur Group, Inc. primarily from one supplier, and purchases from this supplier during the three months and nine months ended September 30, 2007 totaled approximately \$247,000.

**Note 9: Recently Issued Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company did not elect to adopt early the provisions of SFAS No. 159, and the Company does not believe the adoption in 2008 of this Standard will have a material impact on the financial statements.

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Forward Looking Statements**

This Form 10-QSB contains forward-looking statements, including statements regarding the expectations of future operations. For this purpose, any statements contained in this Form 10-QSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate, or continue or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company's control. These factors include, but are not limited to, economic conditions generally and in the industries in which the Company may participate, competition within the chosen industry, including competition from much larger competitors, technological advances, and the failure to successfully develop business relationships. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. This item should be



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read in conjunction with Item 1. Financial Statements and other items contained elsewhere in this report.

## **Acquisition of Merkur Group, Inc. and Inclusion in Results of Operations Since July 2, 2007**

The results of operations discussed herein include the results of Advant-e Corporation and its wholly-owned subsidiary, Edict Systems, Inc. throughout the periods covered by this Form 10-QSB and its wholly-owned subsidiary Merkur Group, Inc. since the date of its acquisition by Advant-e Corporation on July 2, 2007.

## **Products and Services**

The Company, through its wholly-owned subsidiary Edict Systems, Inc., is a provider of business-to-business ( B2B ) electronic commerce ( e-commerce ) products and services, offering Electronic Data Interchange ( EDI ) based and proprietary solutions for businesses of all sizes. The Company develops, markets, and supports B2B e-commerce software products and provides Internet-based communication and data processing services that enable businesses to process transactions electronically.

The Company provides consultative services for its customers, generally small and medium sized suppliers of larger companies, where the Company interfaces between its customers and the buyers to facilitate the EDI connectivity required for document processing.

The following comprise the Company s three principal business products/services:

Web EDI Internet-based supply chain solution for the grocery, automotive, consumer packaged goods, and other industries

EnterpriseEC® Internet-based Electronic Business Transaction Network Services

Value-Added Applications Internet-based solutions that enhance the value of electronic commerce capabilities

The Company, through its wholly-owned subsidiary Merkur Group, Inc. that was acquired on July 2, 2007, develops, private labels, and resells software and provides professional services, technical maintenance, and support to provide solutions that integrate with large Supply Chain Management (SCM), Customer Relationship Management (CRM), and financial and Enterprise Resource Planning (ERP) systems for automating inbound and outbound business documents.

## **Critical Accounting Policies and Estimates**

### ***Revenue Recognition***

The Company recognizes revenues in accordance with the Securities Exchange Commission Staff Accounting Bulletin 101 (SAB 101), which requires the Company to recognize revenue when, in addition to other criteria, delivery has occurred or services have been rendered.

Revenues from Internet-based products and services (Web EDI and EnterpriseEC, etc) are comprised of four components account activation and trading partner set-up fees, monthly subscription fees, usage based transactional fees and customer payments for the Company s development of applications designed to meet specific customer specifications.

Revenues earned from account activation and trading partner set-up fees are recognized after the Company performs consultative work required in order to establish an electronic trading partnership between the customer and their desired trading partners. Trading partnerships, once established, require no ongoing effort on the part of the Company and customers are able to utilize the electronic trading partnerships either directly with their customers or via a service provider other than the Company.

Revenue from monthly subscription fees is recognized over the period to which the subscription applies.

Revenue from usage-based transaction fees is recognized in the period in which the transactions are processed.

Revenue from the sale of software and related products is recognized upon activation of the software and delivery to the customer when title and risk of loss are transferred. The Company follows the guidance provided in Emerging Issues Task Force Abstract ( EITF ) No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. Based upon this guidance the Company records the revenue from the sale of software and related products at gross, and the related software purchases are included in cost of sales. Customers have a 30-day period in which they can

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choose to accept or return the software. Historically, customer returns have not been significant.

Revenue from maintenance contracts is recognized over the life of the maintenance and support contract period, generally twelve months. Revenue from professional services is recognized upon the performance of those services.

Revenue from customer payments for the Company's development of applications designed to meet specific customer specifications is recognized over the contract period, generally twelve months.

### ***Software Maintenance Costs***

Prepaid software maintenance costs represent amounts paid to the primary software supplier of Merkur Group, Inc. for providing program upgrades and software modifications to remediate programming errors during the lives of the related customer maintenance and support contracts. These costs are charged to expense over the lives of the maintenance and support contract periods, generally twelve months.

### ***Software Development Costs***

The Company accounts for the costs of computer software that it develops for internal use and costs associated with operation of its web sites in accordance with the American Institute of Certified Public Accountants Statement of Position ( SOP ) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Emerging Issues Task Force ( EITF ) No. 00-2 Accounting for Web Site Development Costs . Such capitalized costs represent solely the salaries and benefits of employees working on the graphics and content development stages, or adding functionality or features. In accordance with SOP 98-1 and EITF No. 00-2, overhead, general and administrative and training costs are not capitalized. The Company accounts for the costs of computer software that it sells, leases and markets as a separate product in accordance with Financial Accounting Standards Board Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed . Capitalized costs are amortized by the straight-line method over the remaining estimated economic lives of the software application, generally three years, and are reported at the lower of unamortized cost or net realizable value.

### ***Goodwill and Other Intangible Assets, net***

Goodwill represents the excess of the Company's purchase price over the fair value of the net identifiable assets of a business acquired. Goodwill is tested for impairment annually. Other intangible assets consist of contractual vendor relationships, customer relationships and proprietary computer software. Intangible assets acquired in business acquisitions are recorded at their fair values using the income approach or cost approach. The other intangible assets are amortized on a straight-line basis over their expected useful lives of five to seven years.

### ***Recently Issued Accounting Pronouncements***

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company did not elect to adopt early the provisions of SFAS No. 159, and the Company does not believe the adoption in 2008 of this Standard will have a material impact on the financial statements.

## **Results of Operations**

### ***Revenue***

Revenue in the third quarter of 2007 of \$2,178,155 increased by \$809,573, or 59%, over revenue in the third quarter of 2006 of \$1,368,582, and increased by \$697,005, or 47%, over revenue in the second quarter of 2007 of \$1,481,150. Increases occurred in the Company's major products, GroceryEC, AutomotiveEC and EnterpriseEC. Revenue in the third quarter of 2007 included \$610,300 from the sale of software, professional services and maintenance and support contracts by Merkur Group, Inc.

Revenue in the nine months ended September 30, 2007 of \$5,075,628 increased by \$1,111,119, or 28%, over revenue in the first nine months of 2006 of \$3,964,509. Revenue in the first nine months of 2007 included \$610,300 from the sale of software, professional services and maintenance and support contracts by Merkur Group, Inc.

### ***Net income***

Net income in the third quarter of 2007 of \$335,884 increased by \$103,509, or 45%, over net income in the third quarter of 2006 of \$232,375, and increased by \$94,311, or 39%, over net income in the second quarter of 2007 of \$241,573. Net income in the third quarter of 2007 included \$38,310 directly attributable to the operations of Merkur Group, Inc., less \$13,554 of amortization of intangibles net of deferred income taxes related to Advant-e's acquisition of Merkur.

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Net income in the first nine months of 2007 of \$708,602 increased by \$77,666, or 12%, compared to net income for the first nine months of 2006 of \$630,936. Net income in the first nine months of 2007 included \$38,310 directly attributable to the operations of Merkur Group, Inc., less \$13,554 of amortization of intangibles net of deferred income taxes related to Advant-e s acquisition of Merkur.

The Company is continuing to accelerate its sales and marketing efforts to increase the rate of revenue growth in the last quarter of 2007 with the objective of adding several new Hub Companies to the Company's Hub and Spoke marketing program.

*Gross margin*

The Company's gross margin, as a percent of revenue, was 62% in the third quarter of 2007 and 64% in the first nine months of 2007, compared to 69% in the third quarter of 2006 and 70% in the first nine months of 2006. Cost of revenue increased by \$396,322 in the third quarter and by \$610,137 in the first nine months of 2007 compared to the same periods in 2006. Gross margin in 2007, when compared to 2006, declined primarily due to:

Lower margin products sold by Merkur Group, Inc.;

Increased spending in the third quarter and in the first nine months of 2007 compared to the corresponding periods in 2006 for salaries and benefits, including health insurance and the Company's 401-k contribution, and consulting;

Depreciation expense related to continuing infrastructure improvements increased by \$18,137 in the third quarter and by \$56,609 in the first nine months of 2007, but these amounts were partially offset by reduced software amortization of \$10,259 in the third quarter and \$45,493 in the first nine months of 2007 compared to the corresponding periods in 2006.

*Marketing, general and administrative expenses*

Marketing, general and administrative expenses increased by \$286,199, or 49%, in the third quarter of 2007 and by \$431,227, or 24%, in the first nine months of 2007 compared to the same periods in 2006. Marketing, general and administrative expenses, when compared to 2006, increased primarily due to additional Merkur Group, Inc. marketing, general and administrative expenses of \$235,725 and expenses resulting from accelerated sales and marketing efforts to increase the rate of revenue growth in the last quarter of 2007 and in 2008.

Marketing, general and administrative expenses as a percentage of revenue remained constant or improved, amounting to 40% in the third quarter of 2007 compared to 43% in the third quarter of 2006, and 44% in the first nine months of both 2007 compared to 45% in the first nine months of 2006, as a result of the company's expense reduction program that was put into effect late in the first quarter of 2007 and relatively lower expenses in the Merkur operations.

**Capitalized Development Costs**

The following table sets forth the cost and accumulated amortization of the products comprising the Software Development Costs asset at September 30, 2007:

Product	Cost	Accumulated	
		Amortization	Net
Web EDI and enhancements	\$ 796,721	796,721	
Web EDI, new version	229,990	28,749	201,241
Hosted value-added applications	15,363	1,920	13,443
EnterpriseEC	470,661	470,661	
<b>Total</b>	<b>\$ 1,512,735</b>	<b>1,298,051</b>	<b>214,684</b>

The Company has essentially completed the capitalization of software development costs for its new version of Web EDI, and has started to phase in the conversion of existing Web EDI customers to the new version.

**Liquidity and Capital Resources**

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In the first nine months of 2007, net cash flows from operating activities amounted to \$929,420 compared to \$542,938 in the first nine months of 2006. This increase was related primarily to the payment of Federal income taxes, in accordance with IRS regulations, in 2006 for the 2005 tax year, and increased net income in 2007. In the first nine months ended September 30, 2007, cash and cash equivalents decreased by \$333,527 despite the net cash flows from operating activities of \$929,420. This decrease resulted primarily from the cash payments totaling \$971,338 for the acquisition of Merkur Group, Inc., purchases of property and equipment of \$181,246 to upgrade the Company's infrastructure, and payment of \$75,000 to acquire treasury stock pursuant to the Company's stock repurchase program announced on August 9, 2007.

**ITEM 3. Controls and Procedures**

Attached as exhibits to the Form 10-QSB are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). These Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

The CEO and the CFO have conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-QSB. Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Based upon the controls evaluation, our CEO and CFO have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure; and that the Company's disclosure controls and procedures were effective during the period covered by the Company's report on Form 10-QSB for the quarterly period ended September 30, 2007.

During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 6. Exhibits**

**Exhibit**

<b>Number</b>	<b>Description</b>	<b>Method of Filing</b>
2	Plan of purchase of Merkur Group, Inc. on July 2, 2007	Previously filed (E)
3(i)	Amended Certificate of Incorporation	Previously filed (A)
3(ii)	By-laws	Previously filed (B)
4	Instruments defining the rights of security holders including indentures	Previously filed (C)
4.1	Amendment to warrant certificated dated August 9, 2005	Previously filed (D)
31.1	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith
32.1	Section 1350 Certification	Filed herewith
32.2	Section 1350 Certification	Filed herewith

(A) Filed with Amendment No. 2 to Form 10-SB filed as of October 13, 2000

(B) Filed with Amendment No. 1 to Form 10-SB filed as of July 17, 2000

(C) Filed with Form 10-SB filed as of July 1, 2000.

(D) Filed with Form 10-QSB for the quarterly period ended September 30, 2005 as of November 14, 2005.

(E) Filed with Form 8-K on July 2, 2007.



**Signatures**

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Advant-e Corporation  
(Registrant)

November 20, 2007

By: /s/ Jason K. Wadzinski  
Jason K. Wadzinski  
Chief Executive Officer  
Chairman of the Board of Directors

November 20, 2007

By: /s/ James E. Lesch  
James E. Lesch  
Chief Financial Officer  
Principal Accounting Officer  
Member of the Board of Directors